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The Trade Association as a Factor in Reconstruction

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ONE of the basic changes arising out of the war the world over has been the far-reaching control of industry by government. In our own country, the business man during the war has in a large measure had the conduct of his business taken from him through government control of raw materials, fuel, transportation, distribution, prices and capital. The heavy and sometimes clumsy hand of federal regulation has been felt by every manufacturer and tradesman. Competition in many industries has been paralyzed.

The first step in reconstruction is the restoration of open and wholesome competitive conditions. In our own country, happily, economic and political thought in the main favors it and governmental action is already directed to that end. Industrial democracy giving to every man the opportunity to win business success on merit and efficiency is still to be the purpose of government regulation. Monopoly and combinations in restraint of trade are still taboo, not only for their inherent viciousness but because their inevitable effect when consciousness of power is increasing in the great groups of our citizenry is to lead to socialism. If industrial power becomes too greatly centralized, the people as the possessors of sovereignty,—as the last and ultimate authority,—will either exercise a control as heavy as that felt during the war or take possession for themselves. It is vitally to the interest of industry, therefore, that competition free, fair and unrestricted be reëstablished. Just as the trade associations, through their war service committees, rendered invaluable service to the government and their industries during the period of government control, so now they can become a great and constructive factor in the maintenance of competition.

Unfortunately the trade association of the past has concerned itself largely with such matters as control of prices, curtailment of production, or division of territory, and in so doing has run

afoul of the law. Yet its action only too often arose from the sheer desperation of its members over conditions which threatened the ruin of the industry. Competition was blind. Manufacturers were selling by guess work. Secrecy and bitter trade enmities were the rule. As a result, some industries were in a state of chronic and chaotic disorganization. Manufacturers inveighed against such conditions as the result of a competitive system forced upon them by the law. Such conditions, on the contrary, were wellnigh as foreign to a status of fair, wholesome competition which the law seeks to preserve, as the monopoly which it endeavors to prevent. The government was partly to blame for this situation, as it devoted its efforts largely to the prevention of monopoly without seeking to strike at all its causes. The Federal Trade Commission, however, promises to become a great factor not only in the prevention of improper restraints upon competition but also in the elimination of the unhealthy and unsound conditions of competition which breed the restraints.

But great changes are seldom superimposed. The democratic, individualistic spirit of the bulk of American business men, finding its expression through the working organizations of their industries, the trade associations, can and ought to demand that American industry be placed upon an efficient, healthy, competitive basis in the period of readjustment ahead. In so doing, they will fight for individual opportunity and against socialism which is the sure offspring of centralized industrial power. The trade association can become a great force working for industrial democracy, yet bringing to the manufacturer enduring financial benefits which in the long run outweigh the danger and uncertainties of the use of practices counter to the spirit, if not in violation of the law.

ELIMINATION OF SECRECY

Secrecy in competition has always fostered unhealthy conditions. It has denied to every business man the facts upon which he can guide his business efficiently. Without the facts as to prices and production conditions, he has been forced to carry on blindly, the easy prey of buyers who desired to play the jealousies and suspicions of competitors against each other. Instead of facts, he has had a tangled mass of rumors, hearsay statements

and partial data from which to attempt to draw the truth. Price discriminations in violation of the law are almost inevitable under such conditions. Ill-will between buyer and seller are a sure result. As a result prices in more than one industry have gone to ruinous levels, and competitors have adopted such trouble-making and perilous expedients as gentlemen's agreements. Yet much of this could have been avoided by a frank, open exchange of information.

It would be the ideal plan were the government to collect and disseminate figures as to prices and production both because the authenticity of the data would be more certain and the possibility of its misuse eliminated. Such a system was at one time contemplated by the Federal Trade Commission. The Department of Agriculture already furnishes such a service to growers. But in the absence of governmental action, the trade association can be the vehicle by which the same result can be accomplished. The history of some twenty or more trade associations within the past few years has clearly demonstrated that manufacturers through their association organization can exchange information as to their prices and their production so that every manufacturer can have facts instead of suspicions upon which to base his independent competitive policy absolutely free from any concert of action within the condemnation of the law.

During the next year or two of readjustment involving sudden and radical changes, a knowledge of facts will be vital. Figures on production, sales, prices, and demand conditions can be and have been compiled in weekly or monthly reports to members and basic facts prevailing in the industry summarized for the benefit of the business man. The inevitable effects of such a system is to tend to create more stability in price and more normal conditions generally in the industry. It eliminates the disastrous competition arising from distrust or guesswork and supplants it with straight business competition based on facts. It creates the status of competition the law is designed to protect and removes in large measure the danger of monopoly. Unfortunately the business man who makes a fetish of so-called business secrets, fails to appreciate the advantages following from such a policy and by his refusal to coöperate creates the conditions he is first to denounce.

COST ACCOUNTING AND UNFAIR PRACTICE

Not all ruinous competition, however, is the result of secrecy in trade. A good part of it springs from ignorance. The manufacturer who does not know his costs and who sells by guess work is a dangerous element in his industry because his sales policy can sometimes force an entire industry into selling its output at ruinous levels. Selling below cost is recognized as an unfair method of competition. Trade associations in coöperation with the Federal Trade Commission have already made tremendous strides in impressing on their members the necessity of knowing their costs. But it is a work which must constantly be kept up if competition is not to sink back into the old ways.

The trade association, by persuading each of its members to install methods whereby he may know what he can, from a sound business standpoint, do to meet competition, will have gone a long way toward maintaining that status of competition which the law encourages. The action of the Reconstruction Congress of American Industries at Atlantic City in December of last year, in adopting resolutions favoring the adoption of uniform cost accounting in every industry in the country, emphasizes the great importance of cost accounting as a factor in stabilizing industry. But uniform cost accounting should be very carefully distinguished from uniform costs. The association which engages in the latter is restricting competition and will inevitably come into collision with the law.

Unfair methods of competition have long been recognized as the favorite weapon of those aspiring to monopoly. Such methods are now expressly prohibited by the Federal Trade Commission Act. In many industries today there are questionable practices in use, some of them carried down through the years and often forced upon the industry by the action of the minority of its members. Such practices can be eliminated only by the united action of an association acting if necessary in coöperation with the Federal Trade Commission.

Secret commissions, misbranding, bribery and the like are typical. In one industry, secret commissions to buyers have in some instances within the past few months been given to an amount equaling 20 per cent of the value of the sale. Obviously such a practice forces high prices or inferior goods on the public,

demoralizes the trade and prejudices the best interests of the industry and of the public. The trade association offers the machinery for the elimination of such practices. And is it not far better for an industry to do this itself than to be forced to do so through hostile actions by the government? All it takes is a little give and take, a little belief in each other and an elimination of the old spirit of secret, unfair competition. The National Varnish Manufacturers Association and the Paint Manufacturers Association of the United States acting together, for example, have established an unfair competition bureau which within a year has done really remarkable work in ridding the industry of the practice of paying secret commissions to buyers, a practice which had been forced on the entire industry by the action of some of the trade. The National Association of Printing Ink Makers has maintained a similar bureau. The Silk Association of America has done much in eliminating misbranding in the silk trade.

EFFICIENCY IN PRODUCTION

Aside from any question of the perpetuation of competitive conditions in trade, it is beyond dispute that American industry must direct its efforts towards securing the greatest possible efficiency in production and distribution. Considerations of world competition as well as domestic conditions demand it. In some industries, the small manufacturer has not the capital to maintain the most efficient standards of production. To him in particular there is an increasing need for the coöperative action which the trade association can furnish.

Probably no one factor enters so directly into a determination of efficiency in production as labor costs. Labor with a growing class consciousness is demanding new rights or privileges. The rising standards of wages and living in the old world remove the obstacle to broad spirited constructive action on the part of capital. The new republic, Czecho-Slovakia, has already adopted a law for an eight-hour day and insurance against unemployment. The wage scales in England and France have increased tremendously. Strikes are occurring the world over for an eight-hour day. To American industry, the situation is at once a warning and an opportunity. Without the fear of low priced foreign com-

petition, the American manufacturer can better the working and living conditions of his employes, and from satisfied workers secure a maximum production.

The seriousness of the labor problem demands the united consideration of leaders of American industry. The trade association can be the agency through which the problem is worked out constructively in each industry. It is the organization of an industry. The experience of its members with successful profit-sharing plans, bonus systems, housing plans, and other measures to improve the living and working conditions of labor, can be made mutually available, and problems peculiar to the industry can be given scientific study.

The trade association could perform no greater service than in dispelling the old feeling of hostility and replacing it with a feeling of trust and coöperation between labor and capital, which alone will make for the most efficient production. It will require the diplomacy, the powers of head and heart of the leaders of the industries whose united judgment should be placed at the disposal of their industries through their organization, the trade association.

SCIENTIFIC RESEARCH

In America, only the great corporations have been able to indulge in the expense of laboratories and research. The small manufacturer by reason of this fact has been greatly handicapped in competition. In France, the trade associations (*Syndicate Patronaux*) support lecture courses and professional schools, maintain laboratories and issue prizes for valuable research work done. Among trade associations in this country, particularly those containing the small independent manufacturers in their membership, similar action would be of tremendous value. Scientific research has not only aided, it has created new industries during the war.

A very few associations, among which may be mentioned the National Cannery Association, the Paint Manufacturers Association of the United States and the National Association of Tanners, have each established coöperative laboratories to their great benefit. If such an institution is impracticable in a particular industry, at least fellowships can be established in the universi-

ties for special research in the problems of the particular industry. The University of Pittsburgh has a special organization for conducting research work for trade associations. Associations may also utilize the existing laboratories of the government such as the Bureau of Standards and the Bureau of Mines, and by their united action endeavor to secure legislation looking to the establishment of a great national laboratory such as that for which the government of England is making provision.

Such a laboratory would be of inestimable service to the small manufacturer. One of the foremost activities of Germany leading to her great industrial development was her intense interest in industrial research. American industry, if it is to do more than follow other nations, must develop vigorously this phase of its activities. In this movement, the trade association can lead by unifying and organizing trade sentiment in each industry.

ELIMINATION OF WASTE

We have now reached the state in national development where we should carefully husband our resources. Some trade associations have already taken important action in this direction. Just before the war, an association of steel manufacturers employed an expert to devote his whole time to searching out and eliminating waste in their respective plants. In every industry, there are methods costly and wasteful in operation. In one it may be an over-extension of the idea of service; in another the use of an excessive number of grades and sizes; in another a lack of coördinated information on credits; in another an extravagant use of samples.

The work done by the Commercial Economy Board under the Council of National Defense during the war shows the possibilities of standardization and economy. It has been estimated that this board, coöperating with the clothing trade, has saved nearly two million yards of cloth by the reduction of size of samples alone. The implement industry and the wagon industry have made great savings through the adoption of standard types. The sure effect of the successful adoption of such methods is to reduce the capital investment in raw materials and finished products and to free the manufacturer's capital for productive purposes. The mutual exchange of information as to wastes, methods

of correcting them and their study by experts can be accomplished by an association at little expense and with lasting benefits to its members.

EDUCATIONAL WORK AND LEGISLATION

Education of the public and of the trade reacts most favorably on an industry. In recent years, trade associations have just begun to appreciate the benefit of publicity. The growers of California and Florida, the Portland Cement Association and several of the lumber associations have spent many valuable page advertisements in introducing the public to the associations and the uses, old and new, for their products. Here is a great field for the trade association, scarcely touched as yet, for increasing demand and securing the volume which makes for lower prices and the development of the industry. There is a competition between industries just as vigorous as competition between individuals in which coöperative advertising can become a great force.

At least one association, the National Wholesale Grocers Association, has also adopted the long-sighted policy of educating the customers of its members on the use of more efficient trade methods. It has distributed thousands of pamphlets among retailers dealing with such subjects as, for example, the care of perishable foods. Increase in efficiency of any of the factors of distribution will inevitably redound to the benefit of the entire industry, and it is a work the trade association can well undertake.

The next few years will see legislation of the utmost importance under consideration. The business man has been prone to censure Congress for passing laws affecting him, but often he has made no effort to present facts as to the proposed legislation to the proper authorities in an effective way. Legislation yearly is being enacted on such subjects as taxation, tariffs, workmens' compensation and the like. With the whole world in readjustment and reconstruction it becomes vitally necessary to the business man to be organized to protect his interests in no haphazard way. The trade association representing the interests of a single entire industry is the ideal agency through which the business man may make his influence felt on legislation. The trade association need not be, and it is far better that it should not be a lobbying agency. The day of the lobbyist is gone for-

ever. An association can with much more effectiveness be the means through which facts can be compiled, organized in a comprehensive way and presented to the authorities in such a manner as to compel interest and attention. Such a course will make certain a consideration of the interests of the industry as they relate to pending legislation.

FOREIGN TRADE

The great increase of productive capacity in this country has made essential a permanent substantial addition to our foreign trade. Heretofore, the products of American industry in the main did not greatly exceed domestic demands but in many industries at present, war demands have resulted in the development of production which America cannot possibly absorb. In such a situation, an increased foreign trade is vital.

As soon as the American leaves his country's borders to engage in world trade, a new condition of things confronts him. He faces mass competition,—the fight of industrial interests of one nation against another. The industries of Germany have for a number of years been united into effective organizations called cartels, controlling production and prices. France has *comptoirs*, or great central selling agencies for her industries. Japan, during the war, has been forming similar export combinations and the Board of Trade of England has for two years or more been urging the formation by British manufacturers of the same type of organization for British foreign trade. In some industries before the war, great international combinations dividing territories and controlling prices had been formed. Competition in foreign fields is truly international and due to the absence of any effective regulation by an international body, it is apt to be hard hitting and not always honorable and fair.

Against such competition every American industry should present a united front. The trade association offers the organization through which this can be largely accomplished, provided American exporters can submerge their individualism and appreciate the importance of coöperative action in furthering the national interests of their industry. The government has given its coöperation by the passage of the Webb Act which permits with few restrictions the formation of associations or combinations solely

for export trade. Every trade association should study conditions to determine whether an organization of such an export combination among its members is practicable. Great American corporations do not need the help afforded by it but to the small manufacturer it gives an opportunity to enter effectively into foreign trade and thereby to secure the stabilizing effect of diversified demand with the utmost economy of operation. Already a considerable number of such export associations have been formed. The copper, lumber, paper and steel industries have already been organized. The privileges to combine for export trade permitted by the act are not limited to manufacturers, and other agencies are taking advantage of them. In the lumber industry, the wholesale distributors are forming an export corporation.

Aside from assisting in the creation of strong organizations for foreign trade, the association can assist in many other ways. It has the working machinery for coöperating with government departments in disseminating literature of the departments relative to foreign trade problems. It can aid, through publicity, in the elimination of trade abuses or faulty methods which hamper American trade abroad. It can help in bringing about the fixing of standards of quality for articles for export trade, just as the various trade organizations of Japan are now coöperating with the government in the maintenance of definite export standards in some of her industries. Associations, too, can establish direct personal relationship with the business men of foreign countries. The Illinois Manufacturers Association did a great deal to establish cordial relations between South and North American business men by a tour made by the members of the association through South America several years ago, duplicating on a large scale the common practice of chambers of commerce in this country who visit communities in territory their members serve.

ASSOCIATION OF ASSOCIATIONS

With American industries entering as they are in a large way into world competition, the need for unity of purpose and action necessitates a coördinated organization which will represent them as a whole. Great governmental problems relating to shipping tariffs, commercial treaties and the like, which directly affect all

branches of American industry, will be in process of determination within the next few years. What an effective aid in their solution would be a great organization so builded that it could speak for separate industries or for American industry as a whole. And what a controlling factor it might become in shaping the foreign trade policy of American exporters along constructive lines, aiding in the elimination of abuses, arbitrating differences, and building up an international good will for all the products of American industry. The trade association—representing as it does the united interests of an entire industry, is the ideal unit upon which to base a great and efficient organization of this character. The Reconstruction Congress of American Industries was to a large degree made up of official representatives of trade associations. The possibilities of such an organization in domestic affairs alone are shown by the importance attained by the deliberations of this meeting. In Germany, trade associations and other interests have for years been organized into a great association known as the Hansabund. In France, great unions of trade associations or syndicates have been permitted since 1884 and several such as the Union of the Metallurgical and Mining Industries are of an importance that can scarcely be exaggerated. A similar organization in America founded on right principles and having behind it the unlimited resources and resourcefulness of American industry could become a great constructive force in national and international affairs. In the absence of international regulation of international trade, it is a national necessity.